

Message Text

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INFO USMISSION OECD PARIS

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C O R R E C T E D C O P Y P A R A 1 L I N E 1 2

DEPT PASS FEDERAL RESERVE AND TREASURY

E.O. 11652: N/A

TAGS: ECON, GW

SUBJECT: ECONOMIC RESEARCH INSTITUTES FORECAST ACCELER-
ATED GROWTH AND GROWING INFLATIONARY PRESSURES

SUMMARY: IN ITS SEMI-ANNUAL REPORT RELEASED TODAY,
THE WORKING GROUP OF GERMAN ECONOMIC RESEARCH INSTITUTES
NOTES AN UNDERLYING TENDENCY TOWARD ACCELERATION OF
ECONOMIC GROWTH AND EVEN MORE PRONOUNCED INFLATIONARY
PRESSURES. THE GROUP SHARPLY CRITICISES THE GOVERNMENT
FOR PREMATURELY RELAXING FISCAL RESTRAINTS AND FOR
YIELDING TO EXCESSIVE WAGE CLAIMS BY
PUBLIC SERVANTS. TWO OF THE FIVE SEE POTENTIAL NEED
FOR FURTHER DM REVALUATIONS OR A FLOATING OF THE DM
SEPARATELY FROM THE SNAKE. END SUMMARY

1. ACCORDING TO THE INSTITUTES, ECONOMIC GROWTH IN 1974
IS LIKELY TO BE FASTER THAN PREVIOUSLY ANTICIPATED,
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REFLECTING STRONG EXPORT GROWTH, MORE RAPID EXPANSION

OF PUBLIC EXPENDITURES AND A REVIVAL OF INVESTMENT. THE GROWTH RATE OF REAL GNP THIS YEAR IS NOW PROJECTED TO AMOUNT TO 2 1/2 PERCENT. IN TERMS OF CURRENT PRICES, GNP IS ESTIMATED TO RISE BY 9 1/2 PERCENT, WITH GOVERNMENT CONSUMPTION INCREASING BY 16 PERCENT, PRIVATE CONSUMPTION BY 10 PERCENT, AND INVESTMENT IN FIXED ASSETS BY 7.5 PERCENT. EXPORTS OF GOODS AND SERVICES ARE PROJECTED TO INCREASE BY 17 1/2 PERCENT AND IMPORTS BY 22 PERCENT, YIELDING A NET SURPLUS OF DM 21 BILLION, VERSUS DM 25.5 BILLION IN 1973.

2. RE-ACCELERATION OF THE PACE OF THE ECONOMY WILL BE ACCOMPANIED BY INCREASED INFLATIONARY PRESSURES, AS MARKET FORCES WILL INCREASINGLY PERMIT RISING COSTS FOR LABOR AND RAW MATERIALS TO BE PASSED ON IN HIGHER PRICES. AS OF THIS SPRING, LIVING COSTS ARE PROJECTED TO RISE AT A SEASONALLY ADJUSTED ANNUAL RATE OF 10 PERCENT; THE YEAR-ON-YEAR RATE OF INCREASE IS PLACED AT 8 1/2 PERCENT. FOLLOWING ARE THE INSTITUTES' PROJECTIONS OF INCREASES IN THE VARIOUS PRICE INDICES (NATIONAL ACCOUNTS CONCEPT) IN 1974: GNP DEFLATOR: 7 PERCENT; PRIVATE CONSUMPTION: 8 1/2 PERCENT; EXPORTS: 7 PERCENT; IMPORTS: 16 PERCENT.

3. ACCORDING TO THE INSTITUTES, ACHIEVEMENT OF THE 4 MAJOR POLICY GOALS STIPULATED IN THE STABILITY AND GROWTH LAW CURRENTLY IS MORE ENDANGERED THAN EVER, SINCE: A) REAL GROWTH (THOUGH ACCELERATING) CONTINUES TO FALL SHORT OF RISING PRODUCTION POTENTIALS, B) EMPLOYMENT DECLINES, C) PRICES ACCELERATE, AND D) THE EXTERNAL SURPLUS IS EXCESSIVELY HIGH. A BASIC CHANGE IN 1974 IS NOT FORESEEN. THE INSTITUTES BELIEVE AN EVEN MORE PRONOUNCED UPSWING THAN THEY FORECAST IS POSSIBLE IN 1974. SUCH AN UPSWING WOULD HELP TO IMPROVE THE EMPLOYMENT SITUATION AND REDUCE

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THE EXTERNAL SURPLUS, BUT WOULD AT THE SAME TIME TEND TO AGGREGATE INFLATIONARY PRESSURES EVEN FURTHER. THE GROUP IS AGREED THAT THE MAJOR REASONS FOR THE PRESENT DILEMMA ARE THE DISMANTLING OF THE GOVERNMENT'S SO-CALLED STABILITY PROGRAM IN DECEMBER OF 1973 AND SUBSEQUENT YIELDING TO EXCESSIVE WAGE DEMANDS BY THE PUBLIC WORKERS' UNION.

4. TURNING TO POSSIBLE REMEDIES, THE INSTITUTES UNIFORMLY REJECT WAGE AND PRICE CONTROLS BUT DISAGREE IN MOST OTHER RESPECTS. THREE OF THE FIVE (BERLIN, HAMBURG, AND MUNICH) ADVOCATE CONTINUED RELIANCE ON TIGHT MONETARY POLICIES, BUT ARGUE THAT THESE SHOULD NOT BE PUSHED TO THE POINT OF CREATING EXCESSIVE UNEMPLOYMENT.

THE REMAINING TWO (KIEL AND ESSEN) ADVISE, AT LEAST BY IMPLICATION, TO ACCEPT RISKS OF UNEMPLOYMENT AND, IN ADDITION TO TIGHT MONETARY POLICIES, TO ALSO TIGHTEN UP ON FISCAL POLICIES. THE TWO ALSO POINT TO THE UNCLASSIFIED

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CONTINUED DANGER OF INFLOWS OF FOREIGN EXCHANGE. IN ORDER TO STEM AN UNDESIRABLE EXPANSION OF THE VOLUME OF MONEY; THE FRG SHOULD, IF NECESSARY, BE READY TO REVALUE THE DM OR LEAVE THE SNAKE. THE RESULTING RISE OF THE DM PARITY WOULD ABSORB PART OF THE IMPORT PRICE INCREASES AND HELP REDUCE THE EXCESSIVE EXTERNAL SURPLUS, THE ESSEN AND KIEL INSTITUTES CONCLUDE.
HILLENBRAND

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